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# Wave of Bankruptcy Filings Expected From Retailers in Wake of Holidays

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Drained by the worst consumer-spending slump in decades and burdened by debt, U.S. retailers are expected to begin a wave of post-holiday bankruptcy filings, altering the landscape at malls and on main streets across the country.

Retailers are particularly vulnerable in the current downturn after a decade of buoyant consumer spending, which encouraged them to overexpand and overborrow. Now, the banks and private investors who financed the boom are pulling back.

Several of the industry's biggest lenders, including [General Electric Co.](#)'s GE Capital, [CIT Group Inc.](#) and [Wachovia Corp.](#), are tightening lending terms and reducing exposure to retailers. Their tougher terms are making it harder for retailers to find capital to reorganize under bankruptcy-court protection, as they were able to do in the past, meaning there are likely to be more liquidations.

[Circuit City Stores Inc.](#), which filed for Chapter 11 protection in November, warned Friday that it risked liquidation if talks with two parties about a possible sale or cash infusion, weren't successful. Earlier last week, [Goody's Family Clothing Inc.](#), Knoxville, Tenn., announced it was liquidating its remaining 287 stores -- just three months after exiting bankruptcy. Last Monday, [Against All Odds USA](#), a 64-store clothing chain based in New Jersey, said it was entering Chapter 11 proceedings in hopes of selling itself or reorganizing.

According to ratings company Standard & Poor's, nine U.S. retailers and restaurants, including off-price apparel chain [Loehmann's Holdings Inc.](#), drugstore operator [Duane Reade Holdings Inc.](#) and jeweler [Finlay Enterprises Inc.](#) are at significant risk of default, with junk-bond ratings of CCC, or "very weak." A year ago, S&P had six issuers on its list, including three that eventually filed for Chapter 11 protection: [Linens 'N Things Inc.](#), [Vicorp Restaurants Inc.](#) and [Buffets Inc.](#)

Along with [Finlay](#), which operates [Bailey Banks & Biddle](#) jewelry stores, bankruptcy experts think regional department-store chains [Bon-Ton Stores Inc.](#) and [Gottschalks Inc.](#) and fashion-accessories retailer [Claire's Stores Inc.](#) may be under the most stress. They base that assessment in part on the trading level of the companies' bonds, which indicate investors think they will recover only cents

on the dollar.

"A lot of retailers survived through the holiday season because they built up their inventories in the summer before anyone, like their vendors, knew it would be this bad. But now you will see a lot of filings," said Michael Henkin, managing director and co-head of the restructuring group at investment bank Jefferies & Co.

Loehmann's, Duane Reade, Bon-Ton Stores and Claire's Stores, however, dismissed any suggestion they might be at risk. Finlay and Gottschalks didn't respond to messages seeking comment.

"We have sufficient cash to sustain our operations, and pay the interest on [our] notes," said Loehmann's President Robert Glass. "Our parent has put money into the business, and has continued to be very, very supportive." Istithmar, a Dubai investment fund that bought Loehmann's in 2006, declined to comment.

A spokesman for Duane Reade, which is owned by private-equity firm Oak Hill Capital Partners, said the chain is "a vibrant and viable retail operation, and any suggestion to the contrary is inaccurate." He said that the chain has recently seen "positive trends" in sales at store open a year or more, as well as other metrics, and that it has "no liquidity issues."

The spokesman also cited almost \$70 million in available borrowings under a revolving credit agreement as of the end of 2008. Duane Reade has no debt coming due before the second half of 2010, he added.

Finlay, whose bonds trade at around six cents on the dollar, has one of the highest debt-to-earnings ratios in the retail industry, with nearly 19 times as much debt as earnings. In a Dec. 30 strongest-to-weakest ranking of 125 retailers and restaurants by Standard & Poor's Ratings Services, Finlay ranked last.

Finlay had a loss of \$44 million on sales of \$555 million through the first nine months of its fiscal year. Comparable-store sales in the November-to-December period fell 20%. Adding to its woes, the company, which operates nearly 700 Finlay Fine Jewelry sites inside various department stores, is losing a chunk of its department-store leases.

Bud Bergren, president and chief executive of Bon-Ton Stores, which has 280 locations across the Northeast and Midwest, said, "When you look at the facts, we don't see ourselves as a company at risk."

"Obviously, the retail environment is very difficult right now, and credit is very difficult right now. I think the big plus that we have is that we don't have anything coming due," he said.

Bon-Ton Stores, whose December sales were down 5.8% from a year earlier, reported a loss of \$82 million on sales of \$2.1 billion for the first three quarters of its fiscal year.

In October, Moody's Investors Service placed the ratings of the company's already "junk" grade debt on review for possible downgrade. Its bonds trade at

around 15 cents on the dollar, a sharply discounted price that indicates investors doubt the company will be able to avoid defaulting on its bills. The company has about \$1.24 billion in net debt and a ratio of six times debt to earnings.

CIT Group, which lends money against vendors' receivables, recently withdrew coverage for orders to Bon-Ton Stores. Mr. Bergren said the CIT issue "hasn't really been a major disruption at all." CIT declined to comment on its decision.

Gottschalks, a 58-store chain based in Fresno, Calif., has been in talks with Everbright Development Overseas Ltd., a British Virgin Islands-registered firm based in China, and another party, seeking investment capital to help it avoid a possible bankruptcy filing.

In a Dec. 19 news release, Gottschalks said a prior agreement between Gottschalks and Everbright was terminated. It noted that Gottschalks was in new talks with Everbright and another firm. In November, Gottschalks reached an agreement with Everbright for an investment of as much as \$30 million, or a 75% stake in the retailer, but that deal expired without being finalized.

Claire's Stores, based in Pembroke Pines, Fla., has 3,074 stores in North America and Europe. Moody's downgraded its debt twice in 2008, pushing the company's rating deeper into what Moody's analyst Maggie Taylor calls the "deep junk" category.

"There's not very much room that it can go," said Ms. Taylor.

Even so, Claire's Stores spokesman Steven S. Anreder said the retailer "is comfortable with its financial condition." He said the company "has an extremely flexible capital structure, with no near-term debt maturities and no financial covenants, and had \$194 million of cash as of our last report."

Claire's Stores was the target of a March 2007 leveraged buyout by Apollo Management LP, leaving the retailer with debt of around \$2.5 billion, or roughly 10 times its annual earnings.

The retailer also faces tens of millions of dollars this year in interest payments on its bonds. One tranche, a \$250 million bond with an interest rate of 9.25%, will require a payment of \$11.6 million in June and again in December.

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